

The eXport factor: British SMEs' approach to doing business overseas



Introduction

Small and medium sized enterprises (SMEs) are centre stage in the economy, representing 99.7% of all enterprises. Therefore, they are key to any developments in the economy.

There has been much research looking into how exporting has the potential to bring considerable benefits to SMEs and consequently to national economies (Philp, 1998). The Government also firmly believes that small businesses must look overseas to trade their way out of the downturn.

This short report seeks to build on this analysis and looks at the current trends in the exporting behaviour of British SMEs. It considers whether the common perception that SMEs grow and establish their presence in the UK before moving into export holds true today. It also seeks to delve into what circumstances drive firms to export: is there a considered, proactive strategy or is it a case of SMEs 'falling' into it?

1. The current picture

This diversity of British SMEs, and the range of goods and services they produce, is evident in the variation to which they are actively engaged in exporting. *Figures 1 and 2* summarise which sectors are actively exporting and the contribution made. The analysis reveals that the largest proportions of exporters are in the retail trade and manufacturing industries (66%). The high proportion of retailers exporting may be a reflection of the development of online sales which provides them with access to new markets. Surprisingly, the construction sector has firms that are active in international markets, (19%), perhaps developing property for overseas investors or having workers overseas. Collectively, the picture is one of a wide range of British SMEs embedded within the global marketplace.

The results also reveal regional variations in exporting. SMEs in London have the highest proportion of exporting firms (61%) which reflect the Capital's status as a global city, along with its diverse and specialist firms (*Figure 3 – see page 3*). Furthermore, the diversity of London's population and the links of owner-managers to other countries may also assist these firms in exporting. This is followed by firms in the South West where 55% are exporters. The region with the lowest proportion of exporters is Wales at 35%.

The analysis also show that currently export based activities increase with business size (*Figure 4 - see page 3*). This may be a result of larger SMEs having sufficient resources to meet both the higher costs and knowledge requirements to enter wider overseas markets (Andersen 2006). This implies that a one-size-fits-all approach to export advice for SMEs may fail to address the particular needs of firms. This may also indicate that micro-enterprises may require targeted support to raise their levels of understanding in order to enable them to consider exporting.

Figure 1 Exporting SMEs by sector

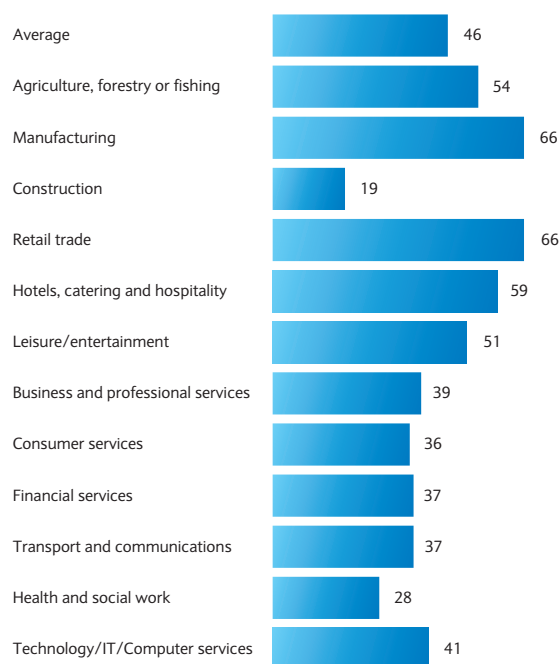
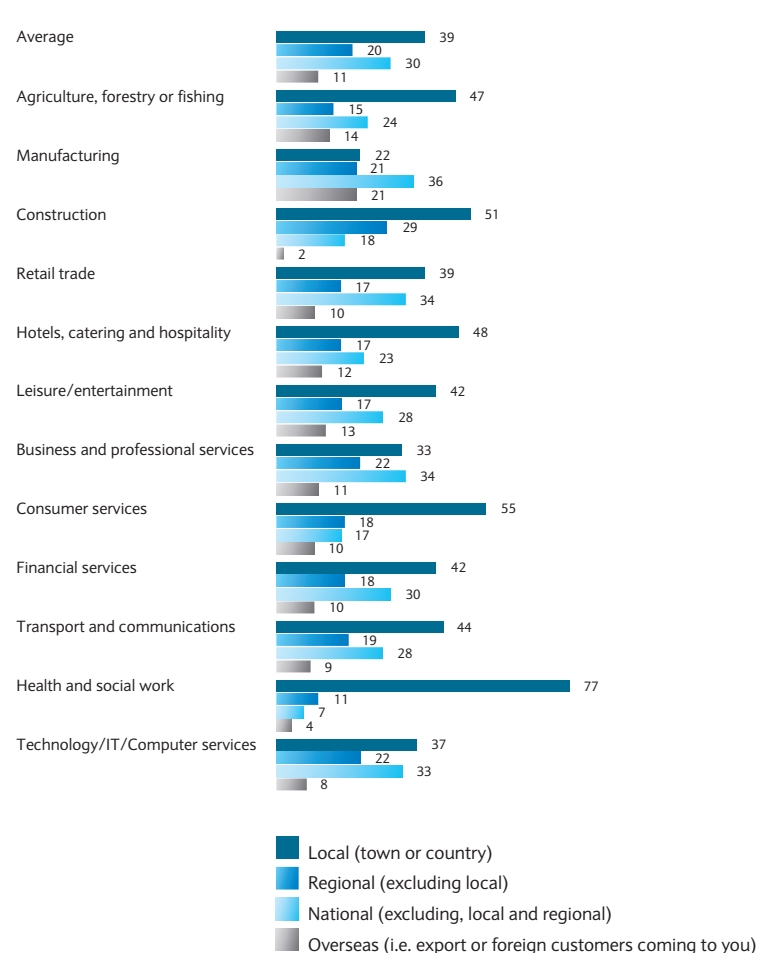


Figure 2 SME markets



2. Born Global?

A common perception is that as SMEs grow and establish their domestic presence, they then seek to expand into overseas markets (BIS 2010b). The results show that this 'stage model' of export development may no longer be the case: 68% of firms in the survey that export, have always exported - firms that were 'born global'. These firms are viewed as engines of regional economies bringing in overseas income into the national and local economies.

The results also show that the 'born global' approach varies between different sectors (*Figure 5*). Firms in the hotels, hospitality and catering sector (85%) and manufacturing (82%) have the highest proportions of 'born global' firms. This may be explained by the tangible products that can be easily exported overseas by manufacturing firms, whilst SMEs in the hotels, catering and hospitality sector are likely to service international visitors and tourists. Subsequently, these firms are naturally orientated to export from their initial formation.

It is also notable that these firms are also those with the highest propensity to export. In other words, the stage model of exporting appears to hold less in today's economy as firms are more ready and able to simultaneously seize new opportunities from overseas as well as domestic markets.

The distribution of 'born global' firms also varies across the regions (*Figure 6*). Interestingly, despite having the lowest proportion of exporters, Wales has the highest number of 'born global' firms (77%) followed by London (74%) and South East England (73%). Firms in the North West (57%) and Scotland (62%) have the lowest number of 'born global' firms.

Figure 3 Exporting SMEs by region

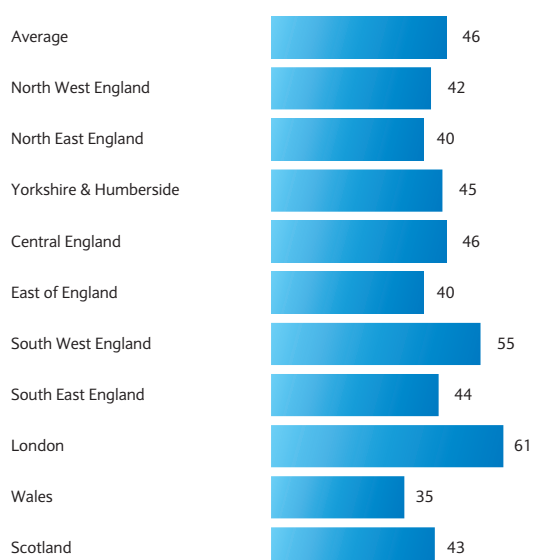


Figure 4 SME exporters by turnover

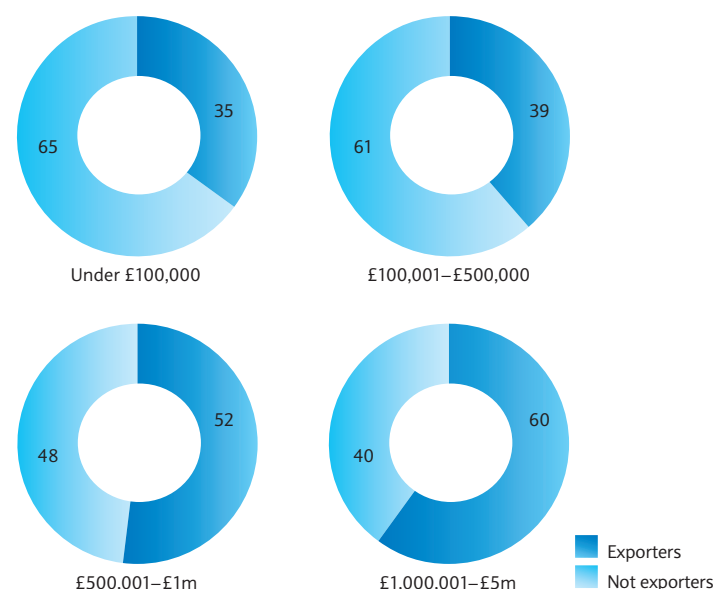


Figure 5 'born global' by sector

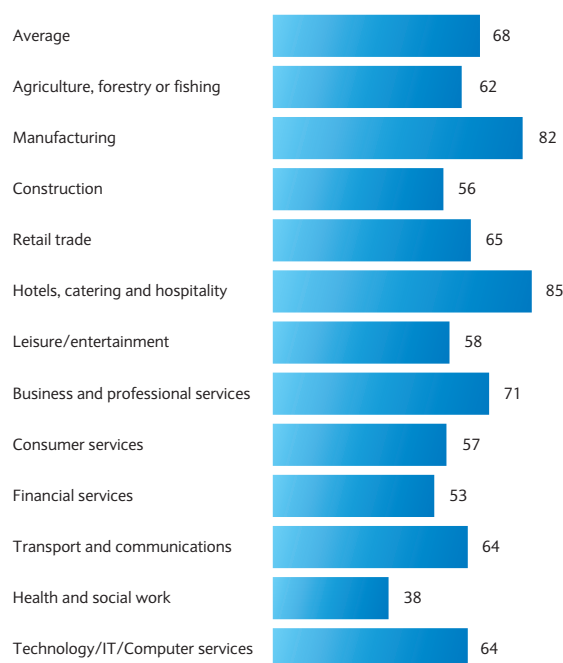
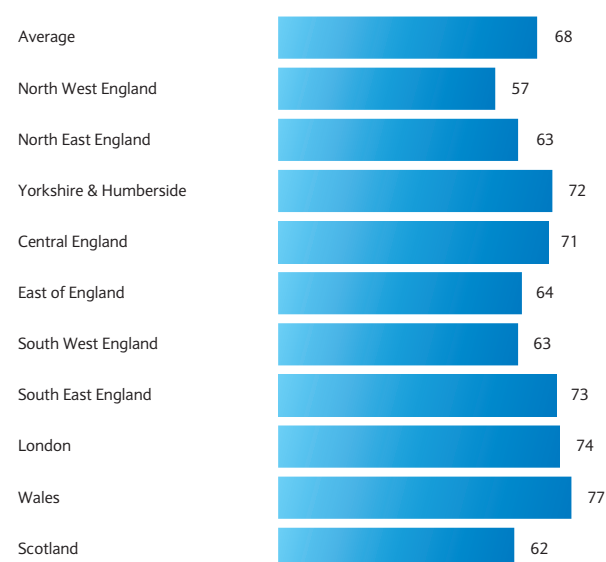


Figure 6 'born global' by region



3. To plan or not to plan?

Exporting is often advocated as a strategy for owner-managers to increase their sales and revenue. However, exporting involves additional costs and uncertainties over and above those faced when serving local markets (Andersen 2006). Many analysts view exporting as a deliberate and planned activity; or that it requires planning to be successful.

This research reveals, however, that owner-managers' approach to exporting is not that simple. Having a master plan is not considered as a pre-requisite to securing overseas customers. Many firms do not plan to export: they fall into it, or regard it as a part of their normal business (*Figure 7*).

The analysis also shows that of those firms that do not export, only 2% of firms are expecting to begin exporting in 2011. However, it is likely that the actual figure will be higher than this as the year progresses. This finding also underlines the fact that many SMEs don't actively have an actual plan to export but instead respond to chance opportunities. It also reveals a 'stickiness' in terms of the geographical sales patterns of SMEs as owner-managers concentrate on serving existing markets.

Collectively, the results suggest that SMEs engaged in exporting do not view this activity as the 'next stage' of their business, actively planning overseas operations following success domestically. Instead these firms started as an exporter ('born global') and / or seized new export opportunities as they presented themselves:

- 'Unplanned': 59% of the SMEs that export were approached by overseas customers. This is particularly the case with the retail trade (70%) and the leisure and entertainment industry (65%).
- 'Planned strategy': only 40% of the firms that are currently exporting actively sought new markets. Firms in the manufacturing (54%) and agriculture, forestry or fishing sector (54%) are most likely to fall into this category. In contrast, the hotel, catering and hospitality industry is less likely to focus on actively seeking new markets (26%).
- 'Supplier-customer introductions': 25% of SMEs were introduced to new customers from their existing client and supplier relationships. This indicates a degree of trust involved in obtaining new clients through existing business networks and is an important route to new business. Business and professional services (37%) and consumer services (36%) found introductions important.

Figure 7 Embarking on exports



4. Owner-manager characteristics and export behaviour

Most analyses of exporting behaviour focus on the characteristics of firms (Wheeler et al. 2008). However, in SMEs, the owners and managers of the business are more influential than in corporate organisations where strategic decisions are shaped by committees and shareholders. The research looked at the backgrounds of owner-managers and their relationship between their international characteristics and engagement with overseas markets.

Almost half of owner-managers had some overseas connection or experience but the analysis reveals that managers with overseas experiences may also have a more 'international outlook', assisting them in export-led behaviour - 54% of those with any overseas experience were involved in exporting, compared with 38% of those who had no overseas experience.

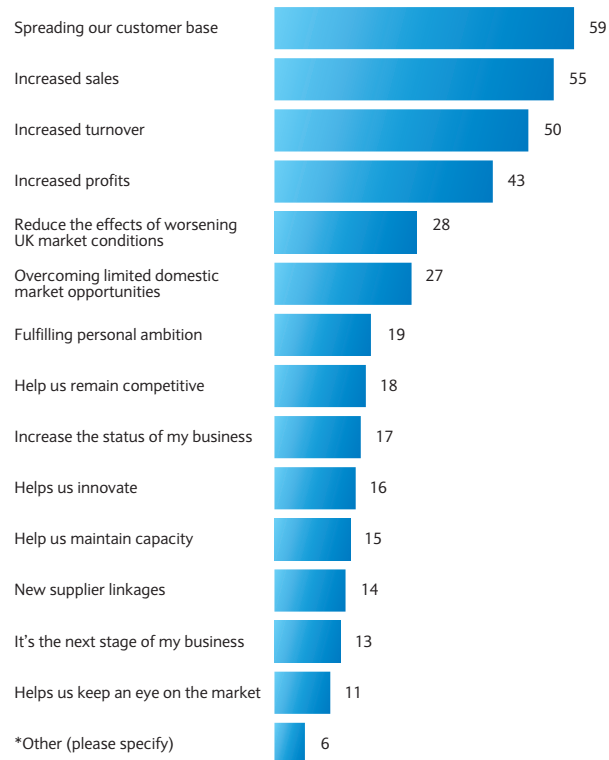
Furthermore, those owner-managers who were more exposed to overseas experiences were much more likely to be involved in exporting. For example, owner-managers who were educated abroad, have family and work experience from overseas, were almost twice as likely to be involved in exporting.

5. Opportunities and Barriers to exporting

Once successfully developed, overseas markets bring a diverse range of benefits to British SMEs (*Figure 8*). Of those firms currently exporting, 59% reported that their exposure to international markets enabled them to spread their customer base, suggesting that this may have helped these businesses in the economic recovery by providing them with income from beyond their UK domestic markets.

Figure 9 summarises the barriers to exporting, as identified by those firms which currently export. The analysis indicates that specific barriers continue to impede export potential, even for exporters.

Figure 8 Opportunities to exporting



*Other (please specify): By providing a quality product and environment, it makes this area worth the visit from overseas and will increase tourism to the areas; Engender a innovative trend; Exported a much needed service; I do not view it as an advantage x4; Immediate payment and more honest business, unlike in UK; It's the nature of the business x2; None x10; Our work is done differently in the UK, so we can't operate here; Raises the standards in the sport; Spreads financial risks; it's more interesting; helps business reputation grow; This is what we were set up to do; Useful to earn US\$ for my holidays there; get a warm feeling when I receive an order from unexpected areas of the world; only market.

Figure 9 Barriers to exporting



*Other (please specify): Costs to do business; Costs of items and carriage; Currency conversion costs; Exchange rate; Finding potential clients and persuading them that we are worth giving a try; Finding the prospects; High cost of Air Mail Postage when sending goods overseas; Identifying foreign -UK traders; Keeping current with staff training; Lack of continued custom; Legal; Limited customer base; Logistics; My own willingness; No one has any money; Postal issues; Receiving payments; Skilled staff with overseas experience; Time zone differences x4; Trustworthiness; VAT.

6. Summary

Exporting brings a variety of benefits to firms, but the evidence shows that they must overcome a series of barriers and challenges to be successful.

The research and subsequent analysis reveals that today the trend is for SMEs to either start as an exporter ('born global') and / or seize new export opportunities as and when they present themselves, rather than having a formal plan to export as part of a 'staged' approach.

Clearly, many SMEs have shown that successful exporting does not necessarily require a detailed master plan. However, there is an argument that owner-managers could be missing out on valuable opportunities to do business abroad by taking a more reactive rather than proactive approach to exporting.

With this reactive approach to exporting, it is important that owner-managers are able to easily maintain a general awareness and alertness to international opportunities, rather than see exporting as about developing extensive and detailed plans before entering new markets. They need to know where to look for immediate assistance and which sources of advice can be exploited to maximise opportunities quickly. From a policy perspective, agencies responsible for export promotion, public and private, need to market their services clearly to SMEs and be able to provide appropriate SME advice on a responsive basis. This would include information on, for example, country-specific rules and regulations; together with information on currency exchange management from financial service providers; as well as presenting cases on how it has been done by similar SMEs.

Finally it is also clear that those owner-managers who have developed social capital and international experiences elsewhere are heavily engaged in exporting activity. These owner-managers are shown to be more aware of new opportunities and have the knowledge to act on them, based on their experiences and international outlook.

References

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